

Montgomery County, Maryland - Disclosure For Fiscal Year 2016

<p>\$46,765,000</p> <p>MONTGOMERY COUNTY MARYLAND Revenue Bonds (Department of Liquor Control) Series 2009A</p>	<p>\$34,360,000</p> <p>MONTGOMERY COUNTY MARYLAND Revenue Bonds (Department of Liquor Control) Series 2011A</p>	<p>\$46,645,000</p> <p>MONTGOMERY COUNTY MARYLAND Revenue Bonds (Department of Liquor Control) Series 2013A</p>
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Wholesale Operations

Wholesale Facility

The Department of Liquor Control's (the Department) climate controlled wholesale facility (Existing Warehouse) is located on Edison Park Drive in Gaithersburg, MD. The product storage space is approximately 185,000 square feet, of which approximately 10,000 square feet is a keg facility.

The Department uses the warehouse to store approximately 4,000 SKU's of stock beer, wine and spirit products for resale to wholesale customers. Stock products are purchased in bulk and stored at the Existing Warehouse for wholesale customers to purchase, and for transfer to the 25 County retail stores. The Department also offers thousands of items as special order and will research any product a customer wants to ascertain price and availability. Special order items are obtained specifically for both wholesale and retail customers. The procurement process starts once the product is ordered. Each week, approximately 10,000 special order items are stored in the warehouse for no longer than 7 days. The Existing Warehouse also houses the Department's administrative activities.

Wholesale Customer Base

The Department's wholesale customer base comprises every licensed seller of alcoholic beverages in the County. There are over 1,000 license holders in the County, including restaurants, carry-out stores, hotels, conference centers, caterers, clubs and lodges. The Department's ten largest wholesale customers in calendar year 2016 were:

<u>Customer</u>	<u>CY 2016 Sales</u>	<u>Percent of Total Wholesale Sales</u>
Safeway.....	\$ 4,682,234	3.32%
Long Branch Beer and Wine	3,298,206	2.34
Shoppers Food Warehouse	3,289,897	2.33
Downtown Crown Wine & Beer	2,005,131	1.42
Rodman's Party Boutique.....	1,891,507	1.34
Rodman's Gourmet Beer & Wine	1,888,577	1.34
Giant Food Store.....	1,645,580	1.17
Georgetown Square Wine and Cheese.....	1,623,374	1.15
Belby's Discount	1,425,347	1.01
Balducci's	1,421,697	1.01
Total.....	<u>\$23,171,550</u>	<u>16.43%</u>

Source: Department of Liquor Control

Wholesale Suppliers

The Department is not subject to County procurement laws or regulations for purchasing beverage alcohol. The Department procures its stock from wholesale distributors, breweries, wineries and distillers.

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The Department's ten largest wholesale suppliers in calendar year 2016 were:

<u>Supplier</u>	<u>CY 2016 Purchases</u>	<u>Percent of Total Wholesale Purchases</u>
Anheuser Busch, Inc.	\$ 14,831,419	6.74%
Diageo North America, Inc.	14,606,785	6.64
Constellation Imports (Crown)	13,719,614	6.24
Miller Brewing Company	13,383,984	6.08
E & J Gallo Winery	13,269,513	6.03
Constellation Brands.....	9,126,214	4.15
Heineken USA.....	8,739,211	3.97
Jim Beam Brands Company	7,767,654	3.53
Pernod Ricard USA	7,453,459	3.39
Republic National Distributing Company	7,271,845	3.31
Total.....	<u>\$ 110,169,698</u>	<u>50.08%</u>

Source: Department of Liquor Control

Retail Operations

Retail Facilities

The Department operates 25 retail stores located throughout the County. These stores sell non-chilled beer, wine and liquor, plus ice, bottled water and certain mixers.

The stores vary in size, from approximately 2,100 square feet to over 7,400 square feet. The Department leases the stores. The inventory in each store varies according to sales patterns and available retail space. In fiscal year 2016, no single location operated twelve months accounted for more than 6.3 percent or less than 1.5 percent of total Department retail sales.

The Department regularly reviews the operating performance of each retail store. The Chevy Chase store ceased operations on June 12, 2016. The King Farm store opened for business on June 24, 2016.

Retail Sales

The distribution of sales across the Department's 26 retail facilities that were in operation in fiscal year 2016 was as follows:

<u>Retail Store</u>	<u>FY 2016 Sales</u>	<u>% of Total Retail Sales</u>
Burtonsville	\$ 4,045,679	2.9%
Cabin John	4,799,625	3.5
Chevy Chase	2,069,190	1.5
Clarksburg	2,763,025	2.0
Cloverly	4,000,081	2.9
Darnestown.....	6,854,980	5.0
Fallsgrove	4,490,866	3.3
Flower Avenue	2,671,994	1.9
Goshen Plaza	5,351,808	3.9
Hampden Lane.....	6,677,421	4.9
Kensington.....	7,231,125	5.2

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King Farm.....	23,248	0.0*
Kingsview.....	5,377,817	3.9
Leisure World.....	5,077,892	3.7
Milestone.....	5,185,962	3.8
Montrose.....	8,650,090	6.3
Muddy Branch.....	8,456,545	6.1
Olney.....	5,885,254	4.3
Pike.....	6,793,076	4.9
Potomac.....	7,040,688	5.1
Seneca Meadows.....	4,122,476	3.0
Silver Spring.....	6,781,243	4.9
Walnut Hill.....	5,225,817	3.8
Westwood.....	7,982,482	5.8
Wheaton.....	4,925,630	3.6
White Oak.....	<u>5,173,047</u>	<u>3.8</u>
Total:	<u>\$137,657,061</u>	<u>100.0%</u>

Source: Department of Liquor Control

***King Farm opened on June 24, 2016.**

There is one private retail facility in Takoma Park with authority to sell distilled spirits beverages for off-site consumption.

Results of Operations

Annual Operating Results

The Department's annual operating results have consistently created significant net revenues for transfer to the County's general fund. The following chart shows the total operating expenses, total operating revenues and net revenues for fiscal year 2016:

Annual Operating Results

(dollars in thousands)

	2016
Sales, net	\$ 292,467
Other operating revenues	2,107
Total operating revenues	<u>294,574</u>
Non-operating revenues /(expenses)	(1,791)
Revenues	<u>292,783</u>
Less: Expenses	(263,388)
Net Income	<u><u>\$ 29,395</u></u>

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Sales Allocation

The Department's retail and wholesale sales for fiscal year 2016 are as follows:

<u>Fiscal Year</u>	<u>Retail Sales</u>	<u>Warehouse Beer Sales</u>	<u>Warehouse Wine/Liquor Sales</u>
2016	\$137,657,061	\$88,286,504	\$66,523,484

Source: Department of Liquor Control

Cases Sold from Warehouse

The Department's sales by category for fiscal year 2016 were as follows:

<u>Fiscal Year</u>	<u>Case Beer</u>	<u>Keg Beer</u>	<u>Wine</u>	<u>Liquor</u>
2016	65%	7%	19%	9%

Source: Department of Liquor Control

Transfers to the General Fund

By State law, the Department transfers its net revenues, after retention of a working capital reserve, to the County's general fund. The amount of the transfer is budgeted by the Department and the County and approved by the County Executive by March 15 for the fiscal year beginning on the ensuing July 1. Transfers are made on or before September 25, December 25, March 25 and June 25 in each fiscal year. The transfer amount for fiscal year 2016 was as follows:

<u>Fiscal Year</u>	<u>Amount of Transfer</u>
2016	\$ 30,422,492

Source: County Comprehensive Annual Financial Report

Working Capital Reserve

Pursuant to State law, the Department retains a working capital reserve in an amount determined by the Director of the Department and the Director of Finance of the County, subject to the approval of the County Executive. Beginning in fiscal year 2003, the amount of the working capital reserve has been set at the aggregate of (1) one month's operating expenses, (2) the amount of one payroll cycle (currently bi-weekly), (3) \$1.5 million for inventory purchase, and (4) major, near-future non-recurring expenses (such as start-up costs for new retail facilities).

The amount of the working capital reserve in fiscal year 2016 was as follows:

<u>Fiscal Year</u>	<u>Amount of Working Capital Reserve</u>
2016	\$2,290,672

Source: Office of Management and Budget

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Financial Results

The following chart shows the Department's financial results for fiscal year 2016:

Department of Liquor Control	<u>2016</u>
Operating Revenues	
Sales, net	\$ 292,467,049
Other revenues	2,107,144
Total Operating Revenues	<u>294,574,193</u>
% Change from prior year	5.73%
Operating Expenses	
Cost of goods sold	211,517,189
Personnel costs	31,794,062
Contractual services	3,732,145
Rentals	6,568,451
Depreciation	2,372,241
Maintenance	785,550
Other expenses	6,618,563
Total Operating Expenses	<u>263,388,201</u>
% Change from prior year	6.51%
Gain/Loss on disposal of capital assets	-
Investment income	27,920
Interest Expense	(1,839,210)
Other revenue	19,798
Total Non-Operating Revenue (Expense)	<u>(1,791,492)</u>
Net Revenues	<u>29,394,500</u>
Add Back: Depreciation	2,372,241
Add Back: Interest Expense	1,839,210
Less: Retention of Working Capital	(2,290,672)
Net Revenues Available for Debt Service	<u><u>\$ 31,315,279</u></u>
Existing Debt Service	\$ 9,837,389
Debt Service Coverage	<u><u>3.18x</u></u>
Transfer to the General Fund	<u>30,422,492</u>
Ending Cash Position	<u>7,240,857</u>
Unrestricted Net Assets	<u><u>\$ 16,180,588</u></u>

Sources: County Comprehensive Annual Financial Report,
Department of Liquor Control, and Department of Finance